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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001342

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TAGS: [PGOV](#) [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [KTFN](#) [MCC](#) [AM](#)
SUBJECT: BANK CONTENDING FOR MCC BUSINESS SUBJECT OF
MALFEASANCE INVESTIGATION

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Classified By: CDA A.F.Godfrey for Reason 1.4 (b, d)

SUMMARY

¶1. (C) Armenian regulators and the IMF have both flagged concerns about possible wrongdoing and suspicious transactions at Converse Bank, a major local bank, which we understand is a short-listed candidate to handle MCC transactions. The Central Bank of Armenia's (CBA) financial intelligence chief told us there was ongoing regulatory action against Converse Bank for money laundering, embezzlement and other crimes, but that there is tough resistance within the government to an investigation. Some weeks ago, the IMF told us that they suspect -- based on their analysis of financial reports -- that Converse Bank has been involved in money laundering. Concern over Converse Bank was also raised twice by the Minister of Finance and Economy at recent meetings of the MCA-Armenia Governing Council, which is now evaluating which of the shortlisted banks will manage the MCC "Permitted Bank Account." We understand that the Governing Council is sufficiently concerned that it has tabled further consideration of this matter. END SUMMARY

IMF SHARES CONCERNS ABOUT CONVERSE BANK

¶2. (C) In one of his last meetings with us before leaving the Country a few weeks ago, departing IMF Resident Representative Jimmy McHugh (please protect) told econoff that IMF data suggested that there was a problem with malfeasance at Converse Bank. Specifically, IMF's analysis of Converse Bank's regular data filings imply the existence of transactions that were not properly reported and of excessively high reported interest rates for certain bank accounts. Award-winning Converse Bank is one of the leading banks in Armenia. The bank was founded in 1993 and was listed by Global Finance as one of the "Best Emerging Market Banks" in 2005. It also won the Financial Times Corporation's award for Bank of the Year in Armenia in 2004 and 2005. The bank has 15 branches and is estimated to have 66,000 customers. According to McHugh, the bank was involved in laundering assets from Russia and certain members of the board might also have been embezzling funds. McHugh said that the Central Bank of Armenia (CBA) had been guilty of "regulatory forbearance," aware of the situation but failing to act.

CBA REQUESTS THAT MCC NOT SELECT CONVERSE BANK

13. (C) On September 22, econoff raised the issue with the acting head of the CBA's Financial Intelligence Unit Nerses Yeritsyan, who said that things at Converse were "under control" and that the case had been referred to the Prosecutor General's Office. He said that members of the Converse Bank board were suspected of tipping off customers who were under investigation for money laundering and other crimes, and that the CBA -- in its role as banking regulator -- would require Converse to shake up its top management in the near future.

14. (C) In a subsequent meeting September 26, Yeritsyan told econoff he had heard that Converse Bank was under consideration for the MCC program. He asked emphatically that Converse not be approved. He said that MCC approval at this stage would seriously undermine the CBA's efforts to combat money laundering. Yeritsyan said that the CBA had been working on the case against Converse for some time and that the Converse leadership had recently agreed, in negotiations with the regulator, to sell off the healthy (i.e. believed to be clean) portion of its operations excluding all off-shore accounts. Given the bank's large market share, the CBA did not want to close the bank entirely. Information about the off-shore accounts and other suspicious transactions has already been sent to the Prosecutor General. The CBA hopes to see significant convictions of some politically powerful individuals for misdeeds at Converse. Converse Bank's owner, however, is now backing away from its agreed remedy proposal with the CBA, brandishing MCC's consideration of Converse as "evidence" that its misdeeds were exaggerated.

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CBA OUT ON A LIMB

15. (C) Yeritsyan said that the CBA Chairman and he had put themselves out on a limb when they began pursuing this case against Converse. He said that Converse had political allies and that he and the Chairman had taken a political risk (though he disputed the persistent rumor we hear that the bank is in-part owned by the President's son). Yeritsyan even suggested that he and the CBA Chairman could lose their jobs if the case against Converse did not move forward.

SAY NO, BUT NICELY

16. (C) Yeritsyan said, repeatedly, that it was critical that MCC not accept Converse as its bank. He also said, however, that it was important that any refusal not undermine the on-going investigation. Econoff explained that there was a "no-objection" option and that MCC could object to the bank but that she, econoff, was not sure if MCC would have to explain the grounds for the objection. Yeritsyan said that another option is that CBA can ask the Armenian Prime Minister to object (as is his right) to the selection of Converse as MCC's bank in Armenia. Yeritsyan asked for reassurances that if the Prime Minister did object, the USG and MCC would essentially back up the decision by not complaining about the Prime Minister's decision or, preferably, saying no to Converse as well.

MCA-ARMENIA RECOGNIZES CONCERN ABOUT CONVERSE BANK

17. (C) Converse Bank was short-listed by the Millennium

Challenge Account - Armenia (MCA) as one of the possible banks to be used to manage MCC accounts. At a September 27 meeting of the MCA Governing Council, Converse was presented as a leading candidate. In a signal that the Central Bank's investigation is gaining traction and is getting support from senior government officials, the Governing Council (which is chaired by Prime Minister Markarian) tabled the decision to select MCA's bank and asked the Working Group to review its recommendation in light of the new concerns, which were raised by the Minister of Finance and Economy.

COMMENT

17. (C) Both Yeritsyan and McHugh are long-term, highly-regarded Embassy contacts. While we have not seen any evidence to support their allegations, we believe they are credible. We do not think Yeritsyan exaggerates his concern that losing this fight could seriously damage the credibility of the fledgling Financial Intelligence Unit, and undermine its developing ability to become an effective counter to financial crimes. Judging from the initial reaction of the MCA governing council, it seems that the FIU is getting some senior support. There appear to be sufficiently serious questions about the integrity and reputation of Converse Bank to suggest that selecting it to process MCC transactions would be ill-advised.

GODFREY